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21 May 1963

MEMORANDUM

SUBJECT: Status of Oil Companies' Negotiations with Indonesian Government

1. Attached is a file of recent State cables on the above subject

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2. Caltex, Stanvac and Shell have made no recent effort to reopen negotiations with the Djakarta government on terms for future activity in the country. A government decree delivered to the companies on 10 May, permits them to renew talks before 16 June, on which date new regulations--as yet not made known to the companies--will become effective. Should the companies decide against either resuming negotiations or accepting blindly the 16 June regulations, they will have until late September in which to close down operations.

3. Ambassador Jones has been instructed by State to approach Sukarno on the oil problem before Sukarno leaves Djakarta on 22 May for a month's trip to Japan and Europe. Jones has been directed (tab B) to tell Sukarno that unless a firm government/company profit split of 60/40 has been concluded by 15 June, the companies will stop their export of oil. They will not continue to operate for the duration of the period offered by the government decree.

4. Jones has been told to say that if the oil companies are compelled to withdraw from Indonesia, the projected US program of economic assistance will not be implemented. Without US participation, the proposed IMF stabilization program devised for Indonesia can be expected to collapse.

5. Jones has been apprehensive about making such an approach and in fact advised against it. (tab C) He reports (tab D) that field representatives of both Caltex and Stanvac were "shocked and surprised" over

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his instructions and doubted the wisdom of such a move. Jones has been advised by State (tab E) that company field representatives "do not reflect the judgment of their principals."

6. Jones has arranged to see Sukarno on 22 May but has been advised by a Sukarno aide (tab F) that he will be lucky to have more than five minutes with Sukarno.

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